



**Gulf Research Center**  
Knowledge for All



# The Story of Remittance Flows from the GCC Countries

**Gulf Labour Markets and Migration**

GLMM - EN - No. 5/2014

**EXPLANATORY NOTE**

**Terms of use :** By using any information from Gulf Labour Markets and Migration programme publications, the user: (a) acknowledges having read the legal notices concerning copyright, terms of use and disclaimers and agrees to comply with them in full; (b) agrees to assure himself/herself whether and to what extent copyrights exist on information published by the GLMM prior to using this information; (c) agrees not to use information published by GLMM in any way that would result in the infringement of existing copyrights; (d) agrees to always follow precisely and fully the citation instructions provided by the GLMM. GLMM publications may be copied and distributed only in their entirety and together with any copyright statements they may contain, as long as they are properly attributed and used for non-commercial, educational, or public policy purposes. Photographs, logos, graphs, tables or any other images from the GLMM publications may not be used separately.

**Copyright :** © European University Institute (EUI) and Gulf Research Center (GRC), 2014 All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of European University Institute and Gulf Research Center.

**Disclaimer :** The Gulf Labour Markets and Migration (GLMM) programme cannot be held responsible in any way for the correctness and accuracy of the information and data published on its website, on paper and in other forms, including the database and its publications. The GLMM strongly encourages users to verify the correctness and accuracy of the information and data with the source, which is always indicated with the greatest accuracy and detail possible. Any opinions expressed in any GLMM publication are those of the author(s) alone and do not necessarily state or reflect the opinions or position of the Migration Policy Centre, the European University Institute or the Gulf Research Center.

**Support :** The Gulf Labour Markets and Migration Programme receives support from the International Migration Initiative (IMI) of the Open Society Foundations (OSF) and relies on the institutional resources of the GLMM partners.

# The Story of Remittance Flows from the GCC Countries

George S. Naufal and Ismail H. Genc

**Abstract:** The GCC countries have positioned themselves as the highest remitters in the world, collectively beating the United States, the traditional top remitter. The aggregate official remittance outflows from the Gulf region crossed the \$75 billion mark in 2012 which is 50 per cent larger than the amount remitted from the United States for the same year. Remittance literature is large but mainly focused on remittance inflows. This paper summarizes the existing literature on remittance outflows. We use the literature findings to discuss the story of remittance outflows from the GCC countries. Remittance outflows in the region have been linked to local labor policies which determine the source of foreign labor. We explore the potential role of remittance outflows in the local economies and the receiving home countries.

**Keywords:** Foreign and national populations; Foreign population; Labour market; Nationals and foreign labour; Remittances; Nationalisation; Workforce; Publications; Statistics; Gulf Cooperation Council.

## Introduction

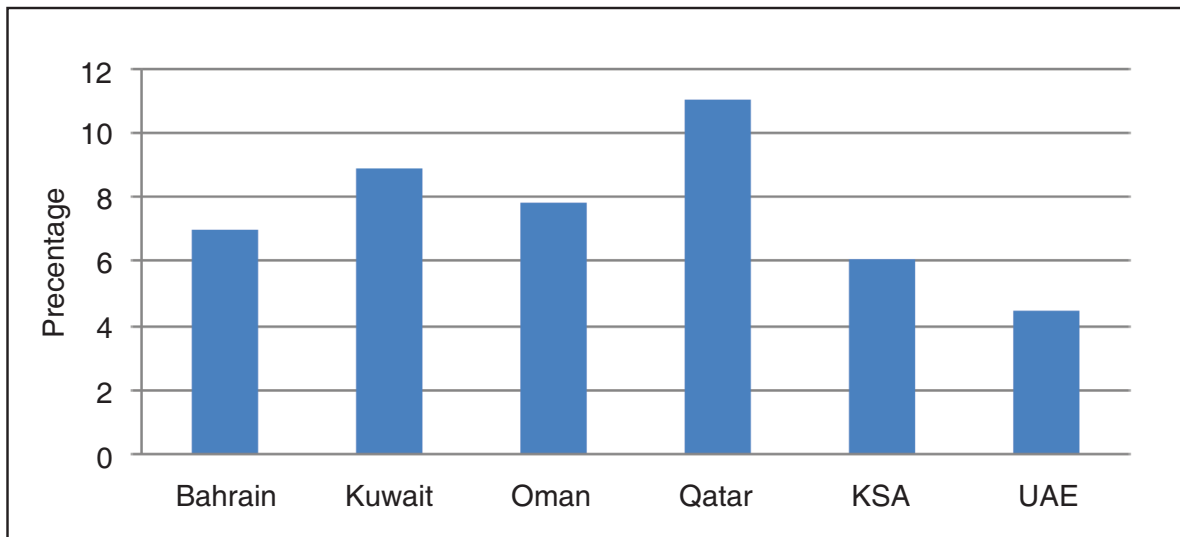
The literature on remittance flows has expanded significantly in the last two decades. The factors that contributed to this expansion include the growth of the migrant stock doubling between 1960 and 2000.<sup>1</sup> Estimates put the number of migrants at the 232 million mark in 2013.<sup>2</sup> Another contributing factor is the decrease in the cost of remitting which has increased the available official data on remittance flows.<sup>3</sup> In the last two decades, the literature on migration has explored the effects of migration and remittance flows on development in receiving countries. Remittance inflows have been

found to be positive in some instances (providing credit in countries with weak financial sectors, promoting self-employment and in doing so substituting for micro-credit, stabilizing domestic output, lowering poverty, and increasing school enrollment). In other instances, remittance inflows are linked to less favorable outcomes (such as creating moral hazard among recipients of remittances who would value remittance income more than occupational income and thus end up quitting their jobs and lowering supply of labor, increasing income inequality, appreciating the real exchange rate, and increasing inflation).<sup>4</sup>

The literature has, however, almost totally ignored the other side of remittances, i.e., money outflows. Before being recorded as inflows, remittances have to be recorded as outflows. The reason behind this oversight is that remittance inflows have not only been large in absolute value but also in relative terms – to main macroeconomic variables such as Gross Domestic Product (GDP) – while outflows have lagged behind.<sup>5</sup> For instance, remittance inflows constitute at least 20 percent of the GDP for nine countries in 2013.<sup>6</sup> India, China, the Philippines, and Mexico have received a combined \$179 billion in 2013 (with a mean of \$44 billion). On the other hand, remittance outflows form less than one percent of the world's top remitters' GDPs.<sup>7</sup> The Gulf region presents the first real opportunity for the academic community to study the effects of remittance outflows. The Gulf region is the third largest labor receiving region in the world only behind North America and Europe, which have historically been destinations for migration (Adams, 2009). Second, migrants in the GCC countries have limited investment opportunities (for instance, they cannot own property in most countries), face strict restrictions to bringing family members (linked to the level of monthly salary), and usually have no path to citizenship.<sup>8</sup> These constraints make all migrants in the region temporary workers (contract workers and thus the name expatriates) who, regardless of their nationality or skill level, share the objective of preparing for their eventual return home.

These limitations create significant incentives to send money back home rather than use it in the local economy. Remittance outflows typically fund their homecoming. Put together, the GCC countries' official remittance outflows crossed the \$75 billion mark in 2012, 50 percent larger than that of the US, the top remitting country. The share of remittance flows from the GCC countries is around 20 percent or one-fifth of the total documented remittance outflows in the world for 2010, 2011, and 2012.<sup>9</sup> Further, the relative size of these flows from the GCC countries is the largest among remitting countries. Figure 1 presents the size of remittance outflows in terms of GDP in the Gulf region for 2010. With the exception of the UAE, remittance outflows are more than 6 percent of the GDP of the local economies. For comparison purposes, remittance outflows are less than one percent of the GDP for traditional top remitting countries: the United States, Russia, and Switzerland between 2010 and 2012.

Table 1 shows that remittance outflows are not only large in absolute value but also constitute an important share of the local GDP. That said, the academic literature on remittance outflows in general, and on remittance flows from the Gulf region, is sparse. The next section summarizes the current literature.

**Figure 1: Remittance Outflows as a Share of GDP 2010**

Source: Values extracted from Termos et al., 2013

## Literature Review

The GCC countries have provided employment to millions of foreign workers who have populated the region in the last two decades. Even though the average share of foreign population in the region has exceeded 50 percent since the early 1980s, the interest in migration and remittance outflows and the region is relatively new.<sup>10</sup> There are only a few current studies that examine the outflows' side of remittances. The first study on outflows lists potential determinants of remittances using time series data from Saudi Arabia.<sup>11</sup> As the Saudi economy grows, remittance outflows increase. The positive relationship here is expected since a growing local economy would lead to an increase in foreign labor and subsequently remittances.<sup>12</sup> Wages and remittance outflows are also positively related suggesting that better off expatriates can afford larger transfers of money. Return indicators, measured by differential in nominal and real interests, are negatively related to remittances. In other terms, higher domestic rates of return in Saudi Arabia tend to lower remittance outflows while higher foreign rates of return tend to increase remittance outflows.<sup>13</sup> Finally, there is a direct relationship between local instabilities (in the Saudi economy) and the monetary transfers. Socio-economic instabilities in Saudi Arabia will only increase the risk perceived by foreign workers raising remittances.

Another study examines potential macroeconomic effects of remittance outflows.<sup>14</sup> The authors suggest that, theoretically, large outflows are expected to impact exchange rates, fiscal policy (monetary policy), and investments. All GCC countries peg their local currencies to the US dollar, so large money transfers in remittance outflows could potentially put pressure on foreign reserves.<sup>15</sup> Further, remittance outflows are expected to affect local fiscal and monetary policies. Using time series data on Saudi Arabia, evidence suggests that remittance outflows affect economic growth in the short term but do not seem to play any significant role in the long term.<sup>16</sup> The study's author argues that this is due to the immediate transfer of money by foreigners. Besides, most of the money earned by the foreign population does not circulate in the local economy and therefore does not contribute to the local consumption and invest-

ment. This finding points to the need, in the short run, of labor policies that create incentives for foreign workers to direct some of their earnings towards the local economy. In the long run, more reliance on the domestic labor force is needed. The local labor force would have a long-term incentive to invest in its own country. For a sustainable policy that direct money transfers to the local economy, foreign workers should be replaced by local labor.

Recent empirical studies investigate the relationship between remittance outflows and inflation using panel data for all six GCC countries.<sup>17</sup> The findings suggest that outflows actually lower inflation (which is the opposite role that remittance inflows play in receiving economies). The authors view remittances' role as stabilizing to the local economies similar to monetary policy. Western economies rely on open market activities (sale and purchase of bonds) as a monetary policy tool to enhance or slow down economic activity. The Gulf region lacks an operational government bond market and since most of the GCC countries peg their currencies to the US dollar, the region also lacks an autonomous monetary policy. Money transfers play a tacit role in controlling inflationary pressure, effectively taking the role of monetary policy. Remittance outflows therefore also play a positive role in the Gulf region.

From the brief summary of the existing economic literature on remittance outflows, we can conclude the following:

- Growth in remittance outflows follows that of the local economy
- Higher earning workers remit more money
- Socio-economic instabilities in the remitting countries encourage further outflows
- Remittance outflows lower economic growth of the remitting countries by removing large sums of money from local consumption and investment flows
- Remittance outflows lower inflation and therefore also have positive effects on the local sending economies.

The next section briefly discusses the history of remittance outflows from the Gulf region and concludes with policy recommendations and a suggested future research agenda.

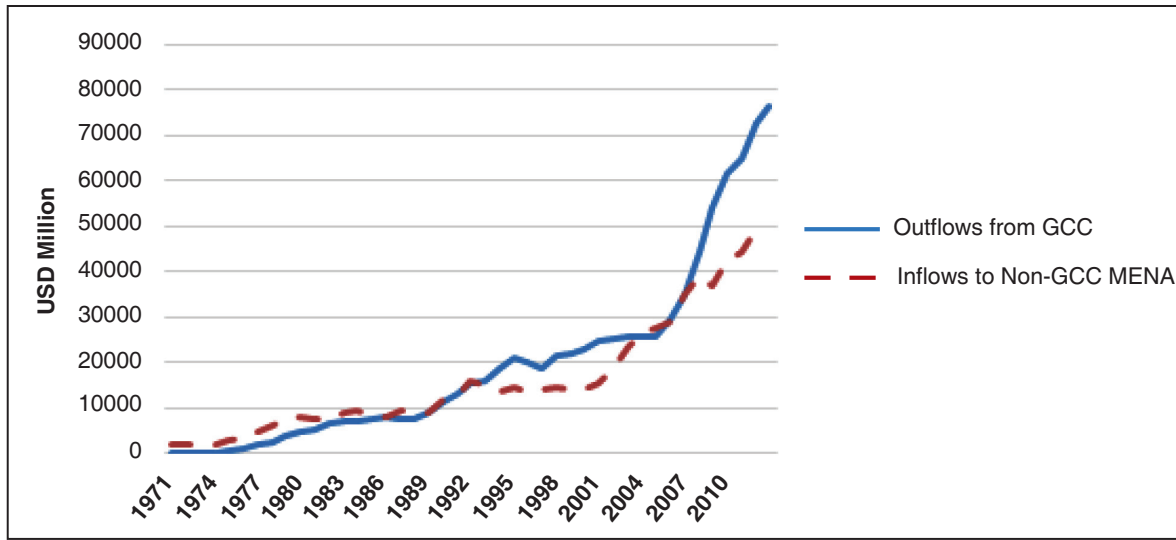
## Remittance Outflows from the GCC Countries

The destination of remittance outflows from the region reflects the source of foreign labor. The literature on migration in the Gulf has documented a shift in the source of foreign workers in the GCC countries from neighboring Arab countries to South Asian countries.<sup>18</sup> The change in the source of labor is documented in remittance outflows around the year 1991 (Figure 2).<sup>19</sup>

Figure 2 highlights an important phenomenon. The destination of remittance outflows from the GCC countries changed in the late 1980s and early 1990s matching the change in the source of labor.<sup>20</sup> While Figure 2 is important, it is based on aggregate macro series of average remittance outflows and inflows. The 1991 Gulf war disrupted the flow of migration to the region. Better micro (and macro) level data would have allowed researchers to more effectively understand the effects of such major events and move away from speculative studies. The 2008 financial crisis and its eventual impact on the Gulf region

would have been another opportunity to study migration. As the Gulf region gets ready to host some of the top events in the world (Dubai Expo 2020 and the World Cup in 2022 in Qatar), the importance of building a better data set is crucial.

**Figure 2: Mean Remittance Flows in MENA (1971 - 2012)**



Source: Authors' calculations using data from the World Bank online database

In a nutshell, to better capture the effects of labor migration to the Gulf, better macro and micro data are needed to allow researchers to study the effect of outflows on local economies and the effect of outflows turned inflows in the receiving countries. Recently, a new research agenda that tackles the relationship of migration to development has been put forward.<sup>21</sup> With the Gulf region being the single largest remitter in the world, a new research agenda with policy implications is of extreme importance. Thus, the current status of the literature can be summarized as follows:

1. More work is needed to better understand the effects of remittance outflows on sending economies.
  - The current findings are mainly limited to time series analysis of data from Saudi Arabia. Better data collection is needed. The quality of remittances data has improved in the last two decades but this improvement is not mirrored in the Gulf region. For instance, the World Bank data on remittances is still missing data on Qatar and the UAE, two major labor-importing countries.
2. Studies using micro level data are non-existent.<sup>22</sup> With the exception of the listed studies, almost all work on migration and remittances in the region is descriptive.
  - The studies summarized here mainly describe the macroeconomic picture but lack information on the micro level. More studies are needed on the remitting patterns and behavior



of workers in the region. The study of these patterns should not be limited to their current location (the Gulf region) but also to their home countries where more information is needed on the link between migration and development.

## Sources

- Abdel-Rahman, Abdel-Mahmoud M. "The Determinants of Foreign Worker Remittances in the Kingdom of Saudi Arabia." *Journal of King Saud University* 18, no. 2 (2006): 93-121.
- Adams Jr., Richard H. "The Determinants of International Remittances in Developing Countries." *World Development* 37, no. 1 (2009): 93-103.
- Al-Iriani, Mahmoud. "Foreign Direct Investment and Economic Growth in the GCC Countries: A Causality Investigation Using Heterogeneous Panel Analysis." *Topics in Middle Eastern and North African Economies* 9 (2007): 1-31.
- Alkhathlan, Khalid A. "The Nexus between Remittance Outflows and Growth: A Study of Saudi Arabia." *Economic Modelling* 33 (2013): 695-700.
- Choucri, Nazli. "Asians in the Arab World: Labor Migration and Public Policy." *Middle Eastern Studies* 22, no. 2 (1986): 252-273.
- Clemens, Michael. "Seize the Spotlight: A Case for Gulf Cooperation Council Engagement in Research on the Effects of Labor Migration." Center for Global Development Essay, July 2013.
- Kapiszewski, Andrzej. "Arab Labour Migration to the GCC States in Arab Migration in a Globalized World," International Organization for Migration, 2004. 115-133. Geneva.
- Khalaf, Sulayman, and Saad Alkobaisi. "Migrants' Strategies of Coping and Patterns of Accommodation in the Oil-Rich Gulf Societies: Evidence from the UAE." *British Journal of Middle Eastern Studies* 26, no. 2 (1999): 271-298.
- Naufal, George S., and Ali Termos. "The Responsiveness of Remittances to Price of Oil: The Case of the GCC." *OPEC Energy Review* 33, no. 3-4 (2009): 184-197.
- Naufal, George S. "Labor Migration and Remittances in the GCC." *Labor History* 52, no. 3 (2011): 307-322.
- Naufal, George, and Ismail Genc. "The Effects of Remittances" in *Labor Mobility: An Enabler for Sustainable Development*, eds. Al-Noaimi, Ali Rashid, and Irena Omelaniuk (Emirates Center for Strategic Studies and Research, 2013).
- Özden, Çağlar, Hillel Rapoport, and Maurice Schiff. "Five Questions on International Migration and Development." *The World Bank Economic Review* 25, no. 1 (2011): 1-11.



- Ratha, Dilip, and Jan Riedberg. "On Reducing Remittance Costs." Unpublished paper. Development Research Group, World Bank, Washington, D.C. (2005).
- Shah, Nasra. "Arab Migration Patterns in the Gulf in Arab Migration in a Globalized World," International Organization for Migration, 2004a. 91-113. Geneva.
- Shah, Nasra. "Gender and Labour Migration to the Gulf Countries." *Feminist Review* 77, no. 1 (2004b): 183-185.
- Termos, Ali, George Naufal, and Ismail Genc. "Remittance Outflows and Inflation: The Case of the GCC Countries." *Economics Letters* 120, no. 1 (2013): 45-47.
- Termos, Ali, Ismail Genc, and George Naufal. "Do Remittances Affect Inflation in the Remitting Country?" International Conference on Excellence in Business, May 2012. Sharjah.
- United Nations, Department of Economic and Social Affairs. *Trends in International Migrant Stock: The 2013 Revision* (United Nations database, POP/DB/MIG/Stock/Rev. 2013) Accessed on May 9, 2014.

## Endnotes

1. Çağlar Özden, Hillel Rapoport, and Maurice Schiff, "Five Questions on International Migration and Development," *The World Bank Economic Review* 25, no. 1 (2011): 1-11.
2. United Nations, *Trends in International Migrant Stock: The 2013 Revision*, Department of Economic and Social Affairs, United Nations database, POP/DB/MIG/Stock/Rev. 2013, accessed on May 9, 2014.
3. Dilip Ratha and Jan Riedberg, "On Reducing Remittance Costs," Unpublished paper, Development Research Group, World Bank, Washington, D.C., 2005.
4. For a recent and detailed review of the remittance literature, see George Naufal and Ismail Genc, "The Effects of Remittances," in *Labor Mobility: An Enabler for Sustainable Development* edited by Al-Noaimi, Ali Rashid, and Irena Omelaniuk (Emirates Center for Strategic Studies and Research, 2013).
5. Naufal, "Labor Migration and Remittances in the GCC."
6. The data are from the World Bank for the following countries: Tajikistan, Kyrgyz Republic, Nepal, Lesotho, Moldova, Armenia, Haiti, Samoa and Liberia.
7. Remittance outflows constitute 0.3 per cent of the GDP of the United States (US) in 2012. The second remitter is the Russian Federation where outflows are 1.5 per cent of its GDP for the same year.
8. George Naufal, "Labor Migration and Remittances in the GCC," *Labor History* 52, no. 3 (2011): 307-322.
9. Authors' calculations using data from the World Bank.
10. Naufal, "Labor Migration and Remittances in the GCC."
11. Abdel-Mahmoud M. Abdel-Rahman, "The Determinants of Foreign Worker Remittances in the Kingdom of Saudi Arabia," *Journal of King Saud University* 18, no. 2 (2006): 93-121.

12. One could also argue that more migrant could also contribute to the Gulf economies. In a general setting, this would be true but in the case of the GCC countries the reverse causality may not be as strong. Most migrants relocate to the Gulf after securing a job; which is usually a consequence of a growing economy. While few of them do use tourist/visit visas to enter the Gulf region and then secure a job during their short stay; this phenomenon is only a reflection of the differential in the cost of hiring (those in the country are cheaper relative to those outside).
13. The study relies on five main remittance destinations: Bangladesh, Egypt, India, Pakistan and the Philippines.
14. George S. Naufal and Ali Termos, "The Responsiveness of Remittances to Price of Oil: The Case of the GCC," *OPEC Energy Review* 33, no. 3-4 (2009): 184-197.
15. Kuwait is the only GCC country that uses a basket of exchange units instead but it still includes the US dollar as a major unit.
16. Khalid A. Alkhathlan, "The Nexus between Remittance Outflows and Growth: A Study of Saudi Arabia," *Economic Modelling* 33 (2013): 695-700. An interesting question arises from the findings of Alkhathlan (2013). How do remittance outflows compare to other macroeconomic flows? In terms of size, remittance outflows constitute on average 26 per cent of foreign direct investments to the Gulf region with the lowest in Kuwait (17 per cent) and the highest in Oman (50 per cent) (Ali Termos, Ismail Genc, and George Naufal, "Do Remittances Affect Inflation in the Remitting Country?" International Conference on Excellence in Business, Sharjah, May 2012). Few studies examine the relationship between foreign direct investments and growth in the region but the evidence suggests a positive relationship (See Mahmoud Al-Iriani, "Foreign Direct Investment and Economic Growth in the GCC Countries: A Causality Investigation Using Heterogeneous Panel Analysis," *Topics in Middle Eastern and North African Economies* 9, (2007): 1-31.
17. Ali Termos, George Naufal, and Ismail Genc, "Remittance Outflows and Inflation: The Case of the GCC Countries," *Economics Letters* 120, no. 1 (2013): 45-47.
18. Nazli Choucri, "Asians in the Arab World: Labor Migration and Public Policy," *Middle Eastern Studies* 22, no. 2 (1986): 252-273; Sulayman Khalaf and Saad Alkobaisi, "Migrants' Strategies of Coping and Patterns of Accommodation in the Oil-Rich Gulf Societies: Evidence from the UAE," *British Journal of Middle Eastern Studies* 26, no. 2 (1999): 271-298; Andrzej Kapiszewski, "Arab Labour Migration to the GCC States in Arab Migration in a Globalized World," International Organization for Migration, Geneva 2004, 115-133; Nasra Shah, "Arab Migration Patterns in the Gulf in Arab Migration in a Globalized World," International Organization for Migration, Geneva 2004, 91-113; Nasra Shah, "Gender and Labour Migration to the Gulf Countries," *Feminist Review* 77, no. 1 (2004): 183-185.
19. Non-GCC MENA countries include the following: Algeria, Egypt, Iran, Iraq, Jordan, Lebanon, Morocco, Palestine, Sudan, Syria, Tunisia, and Yemen.
20. For further details on Figure 2, please refer to George S. Naufal, "Labor Migration and Remittances in the GCC," *Labor History* 52, no. 3 (2011): 307-322. In short, however, a large amount of remittances into non-GCC MENA originated from GCC.
21. Michael Clemens, "Seize the Spotlight: A Case for Gulf Cooperation Council Engagement in Research on the Effects of Labor Migration," Center for Global Development Essay, July 2013.
22. Ibid.

## About the Authors



**George Naufal** is an Associate Professor of Economics at the American University of Sharjah and a research fellow at the Institute for the Study of Labor (IZA). He received a Ph.D. in Economics from Texas A&M University. His primary research includes migration and its consequences mainly the impact of remittances on the remitting countries. His research has focused mostly on the Middle East and North Africa region with an emphasis on the Gulf countries. He is the co-author of *Expats and the Labor Force: The Story of the Gulf Cooperation Council Countries* (Palgrave Macmillan, 2012). He has also published several journal articles and book chapters.



**Ismail H. Genc** is currently Professor of Economics, and the head of the Economics Department, at the American University of Sharjah, UAE. He received his Ph.D. in economics from the Texas A&M University in December 1999. He was part of the Economics and Statistics departments at the University of Idaho, USA, as associate professor with tenure. He also served as Vice-President of the Southwestern Economics Association (USA), and currently sits on various editorial boards, and provides testimony to policy/decision makers in industry and governmental bodies. His expertise is broadly in applied monetary economics, economic development, and remittances. His work has appeared in a number of journals and books and has been recognized with grants and contracts as well as several awards/honors.

**Publication Reference :** Citations and quotations should always include either the long or the short reference provided here. Generally the long reference should be used but in exceptional cases (e.g., not enough room), the short reference may be used.

**Long Reference:** George S. Naufal and Ismail H. Genc, “The Story of Remittance Flows from the GCC Countries,” Explanatory Note No. 5/2014, Gulf Labour Market and Migration (GLMM) programme of the Migration Policy Center (MPC) and the Gulf Research Center (GRC), [http:// gulfmigration.eu](http://gulfmigration.eu)

**Short Reference:** Naufal and Genc, “The Story of Remittance Flows from the GCC Countries,” Explanatory Note No. 5/2014, GLMM, [http:// gulfmigration.eu](http://gulfmigration.eu)

**GLMM Mission :** The Gulf Labour Markets and Migration programme is an international independent, non-partisan, non-profit joint programme of a major Gulf think tank, the Gulf Research Center (GRC - Jeddah, Geneva, Cambridge, Tokyo), and a globally renowned academic migration centre, the Migration Policy Centre (MPC - Florence). The GLMM programme provides data, analyses, and recommendations contributing to the improvement of understanding and management of Gulf labour markets and migration, engaging with and respecting the viewpoints of all stakeholders.

**GLMM Activities :** The Gulf Labour Markets and Migration programme will have a wide range of activities, including: Collecting and elaborating data and documents; Researching and analysing key issues; Publishing various types of papers; Providing a daily news service; Training; and Organising panels and workshops.

**GLMM Publications :** The Gulf Labour Markets and Migration programme produces an array of publications addressing all major issues in different formats. Initially, it focuses on Facts Sheets, Explanatory Notes and Conference Papers. Subsequently, it will add Research Papers, Policy Briefs, Academic Publications as well as Proceedings & Reports.

**Downloading and Further Information :** The paper can be downloaded from the Gulf Labour Markets and Migration programme website: [www.gulfmigration.eu](http://www.gulfmigration.eu). For further information: [info.glmm@grc.net](mailto:info.glmm@grc.net)

